



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

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## KAWKAWLIN METROPOLITAN DISTRICT KAWKAWLIN, MICHIGAN

### FINANCIAL STATEMENTS JULY 31, 2006

1600 CENTER AVENUE  
POST OFFICE BOX 775  
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GLADWIN AND WEST BRANCH

**RSM McGladrey Network**

An Independently Owned Member

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Kawkawlin Metropolitan District	County Bay
Fiscal Year End 7/31/06	Opinion Date 10/26/06		Date Audit Report Submitted to State 11-9-06		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

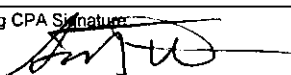
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments or recommendations were noted during the audit.		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-893-5577		
Street Address 1600 Center Avenue		City Bay City	State MI	Zip 48708
Authorizing CPA Signature 		Printed Name Scott Nietzke		License Number 1101022183

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# WEINLANDER FITZHUGH

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ROBERT J. DUYCK, CPA

October 26, 2006

## Independent Auditors' Report

Board of Commissioners  
Kawkawlin Metropolitan District  
Kawkawlin, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of and for the year ended July 31, 2006, which collectively comprise the Kawkawlin Metropolitan District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of July 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Board of Commissioners  
Kawkawlin Metropolitan District  
October 26, 2006  
Page 2

## **Required Supplemental Information**

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Weinlander Fitzhugh*

**KAWKAWLIN METROPOLITAN DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended July 31, 2006**

The Kawkawlin Metropolitan District (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending July 31, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

- The District's net assets increased by \$66,000.
- During the year "operating revenues" increased by \$18,000 and "operating expenses" decreased by \$27,500.
- Service connections decreased by \$15,500.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The business-type activity of the District is the water system.

KAWKAWLIN METROPOLITAN DISTRICT  
Management's Discussion & Analysis  
For the Year Ended July 31, 2006

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's only fund is a proprietary fund.

**Proprietary funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

## **FINANCIAL ANALYSIS OF THE DEPARTMENT**

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

### **Net Assets**

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of July 31, 2006.

KAWKAWLIN METROPOLITAN DISTRICT  
Management's Discussion & Analysis  
For the Year Ended July 31, 2006

**Exhibit A**

	Business-Type Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 153,690	\$ 146,808
Capital assets - net of accumulated depreciation	333,134	276,362
Total assets	<u>486,824</u>	<u>423,170</u>
<b>Liabilities</b>		
Current liabilities	<u>17,206</u>	<u>19,555</u>
<b>Net Assets</b>		
Investment in capital assets	333,134	276,362
Unrestricted	136,484	127,253
Total net assets	<u>\$ 469,618</u>	<u>\$ 403,615</u>

Exhibit A focuses on the net assets of the District. The District's net assets were \$469,618 at July 31, 2006. Capital assets, net of related debt, totaling \$333,134 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$136,484 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the year ended July 31, 2006.



KAWKAWLIN METROPOLITAN DISTRICT  
Management's Discussion & Analysis  
For the Year Ended July 31, 2006

**Exhibit B**

	Business-type Activities	
	2006	2005
<b>Revenue</b>		
Program revenue:		
Charges for service	\$ 206,431	\$ 204,397
General revenue:		
Investment earnings	<u>770</u>	<u>421</u>
Total revenue	207,201	204,818
<b>Function/Program Expenses</b>		
Water	<u>141,198</u>	<u>165,516</u>
<b>Increase in Net Assets</b>	<u>\$ 66,003</u>	<u>\$ 39,302</u>

While the Statement of Net Assets shows the change in financial position of assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the decrease in charges for service in relation to service connections is a major factor in the increase in the change in net assets in 2006.

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUND**

**Proprietary fund.** The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

**KAWKAWLIN METROPOLITAN DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended July 31, 2006**

	Business-type Activities 2006	2005
Gross service charges	\$ 194,259	\$ 176,354
Cost of water	<u>74,283</u>	<u>71,079</u>
Gross profit	119,976	105,275
Operating revenue	12,172	28,043
Operating expenses	(66,915)	(94,437)
Nonoperating revenue	<u>770</u>	<u>421</u>
Change in net assets	<u>\$ 66,003</u>	<u>\$ 39,302</u>
Total net assets - end of year	<u>\$ 469,618</u>	<u>\$ 403,615</u>

**Budgetary Highlights**

The preparation of budgets is not required for proprietary funds.

**Capital Assets**

The District had \$333,134 (net of accumulated depreciation) invested in capital assets as of July 31, 2006. The investment in capital assets includes land, building, equipment and water distribution system.

	2006	2005
Land	\$ 2,000	\$ 2,000
Buildings	11,713	11,713
Equipment	38,052	38,052
Distribution system	<u>472,555</u>	<u>403,755</u>
Total capital assets	524,320	455,520
Less accumulated depreciation	<u>191,186</u>	<u>179,158</u>
Net capital assets	<u>\$ 333,134</u>	<u>\$ 276,362</u>

KAWKAWLIN METROPOLITAN DISTRICT  
Management's Discussion & Analysis  
For the Year Ended July 31, 2006

Depreciation expense has been allocated to water operations.

**Long-Term Debt**

The District has no long-term debt outstanding at July 31, 2006.

**Factors Expected to have an Effect on Future Operations**

We are not aware of any factors that will have a significant impact on future operations.

**Requests For Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Brad Shaw  
Kawkawlin Metropolitan District  
PO Box 367  
Kawkawlin, MI 48631

KAWKAWLIN METROPOLITAN DISTRICT  
Statement of Net Assets  
July 31, 2006

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash	\$ 93,869
Certificates of deposit	28,587
Accounts receivable	31,234
Capital assets less accumulated depreciation of \$179,158	<u>333,134</u>
Total assets	<u>486,824</u>
<u>Liabilities</u>	
Accounts payable	16,972
Accrued payroll taxes	<u>234</u>
Total liabilities	<u>17,206</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	333,134
Unrestricted	<u>136,484</u>
Total net assets	<u><u>\$ 469,618</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT  
Statement of Activities  
For the Year Ended July 31, 2006

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Business- Type Activities</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities					
Water	<u>\$ 141,198</u>	<u>\$ 206,431</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 65,233
General revenues:					
Interest earnings					<u>770</u>
			Change in net assets		66,003
			Net assets - beginning of year		<u>403,615</u>
			Net assets - end of year		<u>\$ 469,618</u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT  
Statement of Net Assets  
Proprietary Fund  
July 31, 2006

	Business-type Activities Enterprise Fund
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 93,869
Certificates of deposit	28,587
Accounts receivable	31,234
	<hr/>
Total current assets	153,690
	<hr/>
<u>Property and Equipment - At Cost</u>	
Land	2,000
Building	11,713
Equipment	38,052
Distribution system	472,555
	<hr/>
	524,320
Less allowance for depreciation	(191,186)
	<hr/>
Net property and equipment	333,134
	<hr/>
Total Assets	486,824
	<hr/>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	16,972
Accrued payroll taxes	234
	<hr/>
Total liabilities	17,206
	<hr/>
<u>NET ASSETS</u>	
Investment in capital assets - net of related debt	333,134
Unrestricted	136,484
	<hr/>
Total net assets	\$ 469,618
	<hr/> <hr/>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended July 31, 2006

	Business-type Activities Enterprise Fund
Gross service charges	\$ 194,259
Water cost	74,283
Gross profit	119,976
Operating revenues:	
Hydrant rental	3,172
Service connections	9,000
Total operating revenues	12,172
<u>Operating Expenses</u>	
Supplies and materials	330
Maintenance wages	6,029
Depreciation	12,028
Repairs and maintenance	20,956
Administrative wages	9,600
Legal and accounting	4,639
Meetings	4,500
Insurance	3,207
Billing charges	1,539
Payroll taxes	1,196
Dues and licenses	1,595
Office expense	495
Utilities	499
Telephone and pager	302
Total operating expenses	66,915
Operating income	65,233
Nonoperating revenues:	
Interest income	770
Change in net assets	66,003
Net assets - beginning of year	403,615
Net assets - end of year	\$ 469,618

See accompanying notes to financial statements

# KAWKAWLIN METROPOLITAN DISTRICT

## Statement of Cash Flows

### Proprietary Fund

For the Year Ended July 31, 2006

	Business-type Activities
	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 207,242
Cash payments to suppliers for goods and services	(114,694)
Cash payments to employees for services	(16,825)
Other operating income	<u>12,172</u>
Net cash provided by operating activities	87,895
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(68,800)</u>
Net increase in cash and cash equivalents	19,095
Cash and cash equivalents, at beginning of year	<u>74,774</u>
Cash and cash equivalents, at end of year	<u><u>\$ 93,869</u></u>

See accompanying notes to financial statements



**KAWKAWLIN METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended July 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Kawkawlin Metropolitan District (District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Kawkawlin Metropolitan District.

**Reporting Entity**

The Kawkawlin Metropolitan District was formed under Act 312 of the Public Acts for the year 1929, as amended. The District operates a water supply system. The District purchases water in bulk from the Bay County Department of Water and Sewer and resells it to customers within the District.

The District is governed by a Board of Commissioners. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. The District has no component units.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include, (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KAWKAWLIN METROPOLITAN DISTRICT  
Notes to Financial Statements  
For the Year Ended July 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Separate fund financial statements are provided for the major enterprise fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary fund.

- The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KAWKAWLIN METROPOLITAN DISTRICT  
Notes to Financial Statements  
For the Year Ended July 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Receivables – Accounts receivable consist of utility charges to the District's customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Equipment	5-15 years
Distribution system	30-50 years

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

KAWKAWLIN METROPOLITAN DISTRICT  
Notes to Financial Statements  
For the Year Ended July 31, 2006

**NOTE 2 - DEPOSITS AND INVESTMENTS**

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

At year-end, the District's deposits were reported in the basic financial statements as follows.

	<u>Governmental Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 122,456</u>

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of July 31, 2006, none of the District's bank balance of \$122,757 was exposed to custodial credit risk because the entire balance was fully covered by federal depository insurance.

The District's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

KAWKAWLIN METROPOLITAN DISTRICT  
Notes to Financial Statements  
For the Year Ended July 31, 2006

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity of the District for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Capital assets being depreciated:				
Building	11,713	0	0	11,713
Equipment	38,052	0	0	38,052
Distribution system	403,755	68,800	0	472,555
Subtotal	453,520	68,800	0	522,320
Less accumulated depreciation for:				
Building	11,713	0	0	11,713
Equipment	29,199	2,087	0	31,286
Distribution system	138,246	9,941	0	148,187
Subtotal	179,158	12,028	0	191,186
Net capital assets being depreciated	274,362	56,772	0	331,134
Net capital assets	<u>\$ 276,362</u>	<u>\$ 56,772</u>	<u>\$ 0</u>	<u>\$ 333,134</u>

Depreciation expense has been allocated to water operations.

KAWKAWLIN METROPOLITAN DISTRICT  
Notes to Financial Statements  
For the Year Ended July 31, 2006

**NOTE 4 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES**

Operating income	\$ 65,233
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	12,028
Change in assets and liabilities	
Accounts receivable	12,983
Accounts payable	<u>(2,349)</u>
Net cash provided by operating activities	<u>\$ 87,895</u>

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The District purchased services for system replacement, repairs and maintenance and supplies in the amount of \$89,388 from a Company owned by one employee of the District.